

PART II

REPORT OF THE EXTERNAL AUDITOR

**Report of the External Auditor on the Financial Statements of the
Pan American Health Organization for the Financial Period
1 January 2002 to 31 December 2003**

Comprising:

- **EXECUTIVE SUMMARY**
- **SCOPE AND AUDIT APPROACH**
- **DETAILED FINDINGS**
- **ACKNOWLEDGEMENT**

EXECUTIVE SUMMARY

OVERALL RESULTS OF THE AUDIT

1. I have audited the Financial Statements of the Pan American Health Organization (PAHO) in accordance with the Financial Regulations and in conformity with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency. I have provided a separate audit opinion and report in relation to the Financial Statements of the Institute of Nutrition of Central America and Panama (INCAP).

2. My examination revealed no weaknesses or errors which I considered material to the accuracy, completeness and validity of the Financial Statements as a whole and I have placed an unqualified audit opinion on the Organization's Financial Statements for the biennium ended 31 December 2003.
3. Observations arising from the audit are set out in summary below and in the section of this report entitled Detailed Findings.

ADDITIONAL MATTER

4. At the time of finalising my report, I was informed of certain anonymous allegations that had been received concerning conflicts of interest and impropriety in the use of PAHO resources to benefit the financial interests of third parties. The Director has asked me to look into these allegations and I have agreed to carry out a special examination to identify whether, in relation to these allegations, irregularities have taken place in connection with PAHO funds or personnel. I will report the results of that work to the Directing Council as soon as my findings are available.

ON THE FINANCIAL POSITION OF THE ORGANIZATION

Regular Budget

5. The Financial Statements report that the Organization obligated \$171,104,979 or 92 per cent of its Effective Working Budget for 2002-03. After adjustments, the Organization recorded a net excess of income over expenditure on the Regular Budget amounting to \$15,634.
6. The collection rate for quota contributions for the current period of 77 per cent remained in line with the prior biennium, however there was a decrease from 77 per cent to 66 per cent in the collection rate for quota arrears. Of the \$58,197,534 outstanding at 31 December 2003 on quota assessments for the current and prior periods, some \$ 9 million (15 per cent) had been received by 31 March 2004.
7. The Working Capital Fund balance was \$15,000,000 at 1 January 2002. Following the \$15,634 excess and a transfer to the Capital Equipment Fund of \$3,407,000, the balance was reduced to \$11,608,634 as at 31 December 2003. The authorized level of the Working Capital Fund was increased from \$15,000,000 to \$20,000,000 by the 44th Directing Council (2003).

Total Funds

8. Total PAHO expenditure across all funds increased by 9 per cent from \$673,012,477 in 2000-01 to \$733,184,333 in 2002-03. This increase reflects the increased activity of the Expanded Program on

Immunization. Total fund balances increased by \$27,104,212 during the biennium and, although collection of prior years' assessed contributions reduced by \$3,635,651 compared to the previous biennium, net cash and term deposits increased by \$62,851,044 as analysed in Statement III.

ON THE FINANCIAL POSITION OF THE CENTERS (CAREC, CFNI AND INCAP)

9. The overall financial position of CAREC improved in 2002-03. The surplus on CAREC's Working Capital Fund increased from \$736,938 to \$945,845 and Trust Fund income increased by 74 per cent to \$6,998,770 due to two large areas of work: responding to HIV/AIDS and strengthening medical laboratories in the region.
10. The overall financial position of CFNI improved in 2002-03. Although the deficit on CFNI's Working Capital Fund increased by \$61,597 to \$405,265, trust fund income increased substantially by \$625,838 with the addition of ten new trust funds. This is because of major new initiatives on nutrition and HIV/AIDS in the Caribbean and strengthening food safety, as well as funding for technical meetings on food and nutrition.
11. Expenditure administered by PAHO for the three sub-regional centers (INCAP, CAREC and CFNI) has increased from \$14,167,082 (2.1 per cent of total expenditure in 2000-01) to \$17,749,027 (2.4 per cent of total expenditure in 2002-03).
12. The timely payment of assessments is important to the ability of CFNI and CAREC to implement their programmes effectively and I would encourage Member States to adhere to the due times for payment of their contributions.

ON FINANCIAL CONTROL AND OTHER MATTERS

13. During 2002-03, my staff carried out audit visits to PAHO Headquarters and seven country offices (Haiti, Ecuador, Peru, Bolivia, Chile, Brazil and Mexico), as well as the three sub-regional centres (INCAP, CAREC and CFNI) and two regional centres PANAFTOSA and BIREME, in order to review local controls and the oversight provided by Headquarters, and to perform substantive testing.
14. Generally they found a high standard of financial control in operation. Areas where improvements could be made were notified to the Organization and field offices by way of management letters containing observations and recommendations following each visit.

EXTERNAL AUDIT REVIEW OF THE AMPES-OMIS SYSTEM

15. During the biennium my staff carried out a review and reported to management on the

implementation of the AMPES – OMIS system in the field offices.

16. Their findings confirmed that the implementation of AMPES-OMIS in PAHO field offices had been effective and conducted in a controlled manner which offers a sound basis for reasonable assurance on the completeness and accuracy of the Organization's financial information.
17. The review identified a need to improve important elements of the financial controls presently in place. Additionally, the review noted weaknesses in security arrangements which could pose threats to the integrity of financial and other information held within the system; and my staff identified scope to improve controls over the systems and general computing environment, to better ensure that business continuity can be maintained.
18. In addition to the new AMPES – OMIS system, there was an upgrade of the FAMIS (Headquarters nominal ledger) system in July 2003. Audit review by my staff showed that all balances had been correctly transferred from the old system to the new system, and that the changeover had been well controlled.

INTERNAL AUDIT

19. Internal audit have been under-resourced for the majority of the biennium resulting in the postponement or cancellation of 10 of the 35 planned reports.
20. A new agreement between WHO and PAHO signed in January 2004 stipulates that the internal audit team based in Washington will be dedicated to a consolidated internal audit of AMRO (the Regional Office of the Americas for WHO) and PAHO.
21. Given the geographical and functional diversity of PAHO, a fully staffed internal audit department with clear reporting lines is essential to the sound governance of the Organization. The fact that such a large proportion of the planned work was not completed during the biennium and that a vacancy still exists is of concern.

CHANGES IN FINANCE AND BUDGET DEPARTMENTS

22. During 2002-03 there were changes in the structure of the Budget and Finance Department, and a merging of two key posts. In my detailed findings, I have commented on the implications of these changes with regard to segregation of duties. My staff have raised this matter with management, who have assured us that sufficient safeguards are in place.

SCOPE AND AUDIT APPROACH

Scope of the Audit

23. I have examined the Financial Statements of the Pan American Health Organization (PAHO) for the financial period ended 31 December 2003 in accordance with Article XIV of the Financial Regulations.
24. In accordance with my normal practice, I have provided a separate audit opinion and report on the Financial Statements of the Institute of Nutrition of Central America and Panama (INCAP) for the financial period ended 31 December 2003.

Audit Objectives

25. The main purpose of the audit was to enable me to form an opinion as to whether the expenditure recorded in 2002-03 had been incurred for the purposes approved by the PAHO Governing Bodies; whether income and expenditure were properly classified and recorded in accordance with the Financial Regulations; and whether the Financial Statements presented fairly the financial position as at 31 December 2003.

Audit Standards

26. My audit of the Organization's 2002-03 Financial Statements was carried out in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency. These standards require me to plan the audit so as to obtain reasonable assurance that the Organization's Financial Statements are free of material misstatement. The Organization's management were responsible for preparing these Financial Statements, and I am responsible for expressing an opinion on the statements, based on evidence collected in my audit.

Audit Approach

27. In accordance with the Common Auditing Standards, my audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. This included:
 - a general review of the Organization's accounting procedures;

- a broad assessment of the internal controls for income and expenditure; bank accounts; accounts receivable and payable; and supplies and equipment;
- substantive testing of transactions of all types;
- substantive testing of year end balances; and
- a final examination to ensure that the Financial Statements accurately reflected the Organization's accounting records and were fairly presented.

28. These audit procedures are designed primarily for the purpose of forming an opinion on PAHO's Financial Statements. Consequently my work did not involve a detailed review of all aspects of financial and budgetary systems, and the results should not therefore be regarded as a comprehensive statement on them.

Internal Audit

29. As in previous audits, my staff continued to liaise with Internal Audit on matters of joint interest. Where my staff consider that they can place reliance on the work of Internal Audit it is my policy that they should do so, particularly in circumstances where such reliance avoids unnecessary duplication of audit procedures.

Reporting

30. During the audit my staff sought such explanations as they considered necessary in the circumstances on matters arising from the examination of the internal controls, accounting records and Financial Statements. Observations on matters which I consider should be brought to the attention of the Directing Council are set out in this report.

31. In accordance with normal practice, my staff also provide the Organization with management letters setting out the detailed findings arising from their examination.

Audit Results

32. Notwithstanding the observations in this report, my examination revealed no weaknesses or errors that I considered material to the accuracy, completeness and validity of the Financial Statements as a whole. Accordingly, I have placed an unqualified audit opinion on the Organization's Financial Statements for the financial period ended 31 December 2003.

DETAILED FINDINGS

FINANCIAL POSITION OF THE ORGANIZATION

Budgetary Transfers and Program Delivery

33. Statement IV of the Financial Statements shows that the Organization obligated \$171,104,979 (92 per cent) of the available appropriations from the 2002-03 Effective Working Budget of \$186,800,000.

Results of the PAHO Regular Budget

34. As shown in Statement I, the Organization received income of \$178,243,675 and incurred expenditure of \$171,104,979 during the financial period. After providing for delays in the collection of assessed contributions, and adjusting for contributions received in relation to prior years and for savings on prior periods' obligations and other project adjustments, the excess of income over expenditure was \$15,634.

35. The excess of income over expenditure on the regular budget of \$15,634 in 2002-03 compares with the excess of \$4,884,760 in 2000-01. The reduced excess in 2002-03 is due to a fall in collection of quota arrears, see Figure 2.

Quota Contributions

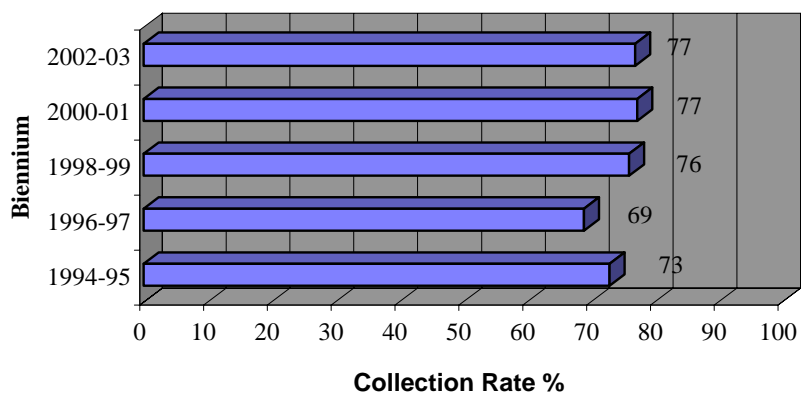
36. Figure 1 shows that for 2002-03 PAHO achieved a collection rate for quota contributions due that was similar to the previous biennium at 77 per cent, and higher than the average for the last ten years.

**FIGURE 1: THE COLLECTION RATE FOR CURRENT PAHO QUOTA CONTRIBUTIONS
(excluding arrears)**

Biennium	Net Assessments	Amount Collected	Outstanding Contributions	Collection Rate
	\$	\$	\$	%
2002-03	180,960,000	139,546,733	41,413,267	77
2000-01	170,796,000	132,108,444	38,687,556	77
1998-99	163,618,000	124,459,109	39,158,891	76
1996-97	162,918,000	113,061,891	49,856,109	69
1994-95	160,636,000	117,869,257	42,766,743	73

Average collection rate 74

PAHO Current Quota Income Collection Rate



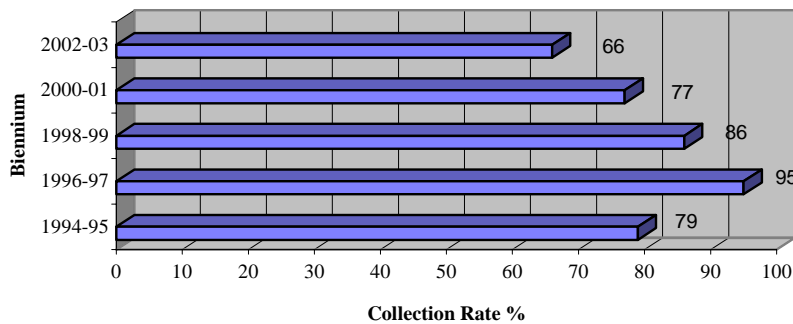
Source: Audited Financial Statements for 1994-95 to 2002-03

37. The Organization applies receipts from Member States to the oldest outstanding contribution. Figure 2 shows amounts received of \$32,432,072 in relation to contributions outstanding at 31 December 2001, representing a collection rate of 66 per cent. This is lower than in 2000-01 and below the average for the last ten years. Of the \$58,197,534 outstanding at 31 December 2003 on quota assessments for the current and prior periods, \$9,020,114 (15 per cent) had been received by 31 March 2004.

FIGURE 2: THE COLLECTION RATE FOR ARREARS OF PAHO QUOTA CONTRIBUTIONS

Biennium	Arrears	Payments received:	Balance due 31 December:	Collection Rate
	\$	\$	\$	%
2002-03	49,216,339	32,432,072	16,784,267	66
2000-01	46,596,506	36,067,723	10,528,783	77
1998-99	52,128,026	44,690,411	7,437,615	86
1996-97	49,204,772	46,932,855	2,271,917	95
1994-95	30,242,378	23,804,349	6,438,029	79
Average collection rate				81

PAHO Quota Arrears Collection Rate



Source: Audited Financial Statements 1994-95 to 2002-03

Working Capital Fund

38. The Working Capital Fund stood at \$15 million at 1 January 2002, comprising an unencumbered balance of \$12,076,676 and \$2,923,324 allocated for guarantee of loan. A transfer to the capital Equipment Fund for \$3,407,000 and an increase due to the surplus from the 2002-03 biennium reduced the overall balance to \$11,608,634 at 31 December 2003. In 2003, the 44th Directing Council increased the authorized level of the Working Capital Fund from \$15,000,000 to \$20,000,000.

Trust Funds

39. Schedule 5 of the Financial Statements reports PAHO trust fund activity for the biennium. PAHO administered more than 500 trust fund projects during 2002-03. Funds received increased by 4 per

cent to \$110,549,418 in 2002-03, compared to \$105,980,884 in 2000-01; while expenditure increased from \$104,301,059 in 2000-01 to \$107,158,512 in 2002-03.

Special Funds

40. Statement I.1 of the Financial Statements reports a decrease in income from \$23,873,061 to \$20,452,451 in 2002-03; and an increase in expenditure from \$22,721,193 to \$26,834,370 in 2002-03, mostly attributable to program support costs.

Non-Project Funds

41. Statement I.2 of the Financial Statements reports income of \$363,315,599 in 2002-03, an increase from \$242,532,208 in the prior biennium. Expenditure rose from \$272,365,184 in 2000-01 to \$334,758,502 in 2002-03. Essentially this was due to the increased activity of the Revolving Fund for the Expanded Program on Immunization, which rose from \$213,971,492 in 2000-01 to \$289,783,443. Details are reported in Schedule 4 of the Financial Statements.

WHO Funds

42. PAHO acts as AMRO - the Regional Office of the Americas for WHO, and administers WHO activities in the Americas. Statement I of the Financial Statements shows that the WHO Regular Budget fell by 5 per cent, \$77,347,752 in 2000-01 to \$73,247,611 in 2002-03. Statement I.4 shows a fall in WHO Other Funds (i.e. Non Regular Budget) of 28 per cent, from \$18,548,958 in 2000-01 to \$13,282,898 in 2002-03.

Total Funds

43. Total PAHO expenditure across all funds increased by 9 per cent from \$673,012,477 in 2000-01 to \$733,184,333 in 2002-03. This increase reflects the increased activity of the Expanded Program on Immunization. Total fund balances increased by \$27,104,212 during the biennium and, although collection of prior years' assessed contributions reduced by \$3,635,651 compared to the previous biennium, net cash and term deposits increased by \$62,851,044. This reflects a \$15,848,615 decrease in investments, excess income over expenditure of \$23,641,419 and an increased funding balance payable to the World Health Organization of \$18,265,236.

Transfers between Funds

44. During 2002-03 the following transfers were made between PAHO's different funds. A transfer of \$3,407,000 was made from the Working Capital Fund to the Capital Equipment Fund for the future purchase of computer equipment. A transfer of \$125,000 was made from the Non-Project Fund for Emergency Procurement to the Special Fund for Natural Disaster Relief. An initial transfer in 2002

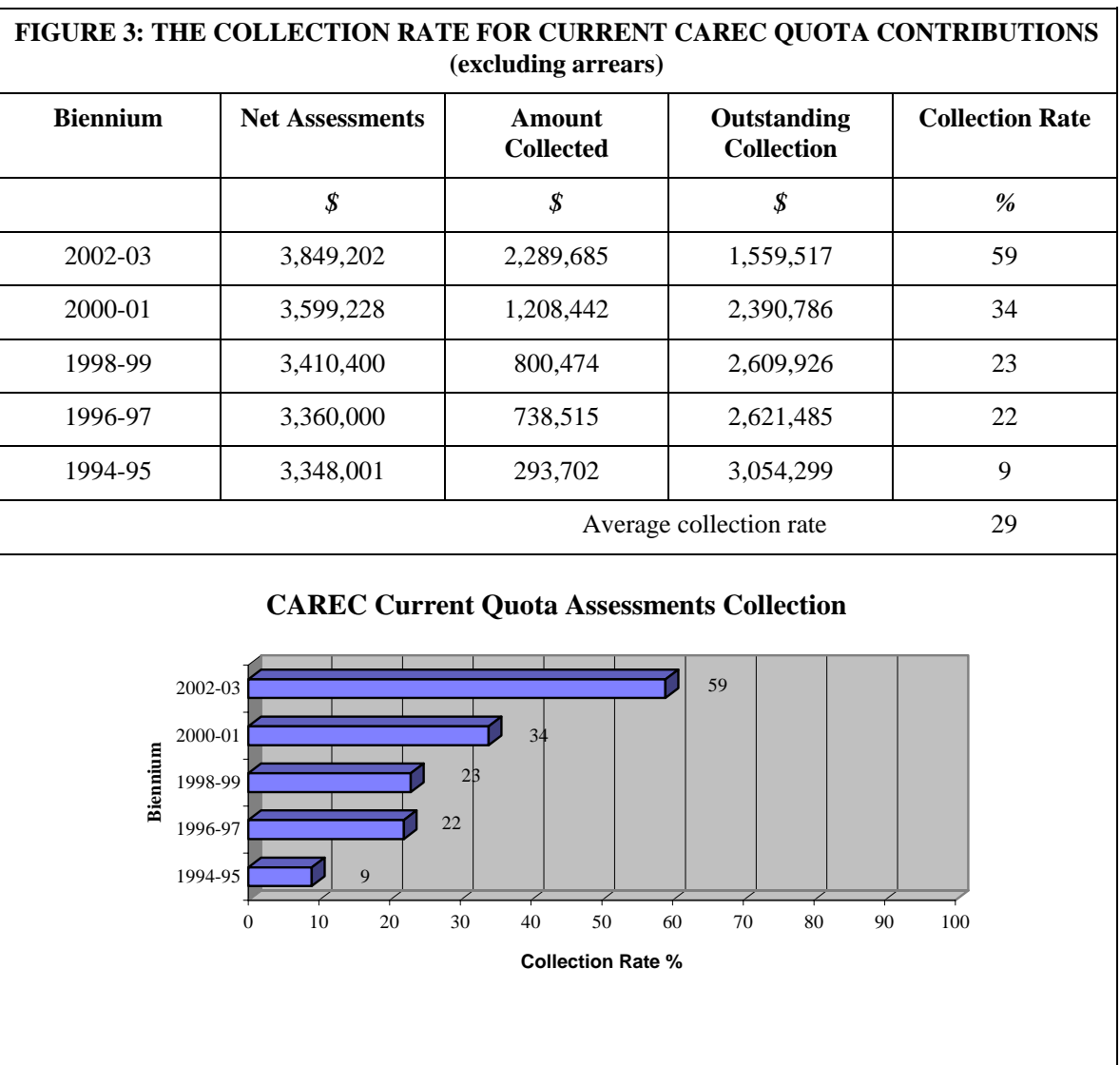
of \$7,000,000 from the Working Capital Fund to the Revolving Fund for the Expanded Program on Immunization was returned in 2003. The initial transfer had been made in anticipation of a healthy surplus balance on the Working Capital Fund. As the balance was lower than expected, management considered it prudent to return the \$7,000,000 to the Working Capital Fund.

FINANCIAL POSITION OF THE CENTRES

Caribbean Epidemiology Center (CAREC)

Quota Contributions

45. Figure 3 shows that CAREC's collection rate of current assessments rose to 59 per cent in 2002-03, the best current collection rate for some years. However, at 59 per cent, the collection rate is still considerably lower than the comparable rate for PAHO (77 per cent).



Source: Audited Financial Statements 1994-95 to 2002-03

46. CAREC also collected \$1,977,919 of total prior period assessments of \$4,239,313 in 2002-03 (47 per cent of amounts in arrears) compared to 64 per cent in 2000-01. As a result of the collection of current and prior year assessments, total contributions outstanding fell from \$4,239,313 at the end of 2001 to \$3,820,911 at 31 December 2003. Of the balance owing at 31 December 2003, 94 per cent is due from just three Member States.
47. My staff noted the considerable efforts made by CAREC to encourage Member States to pay their assessments. Nevertheless, the continued arrears impair the Center's ability to plan and carry out its activities and could place at risk its continued financial viability.

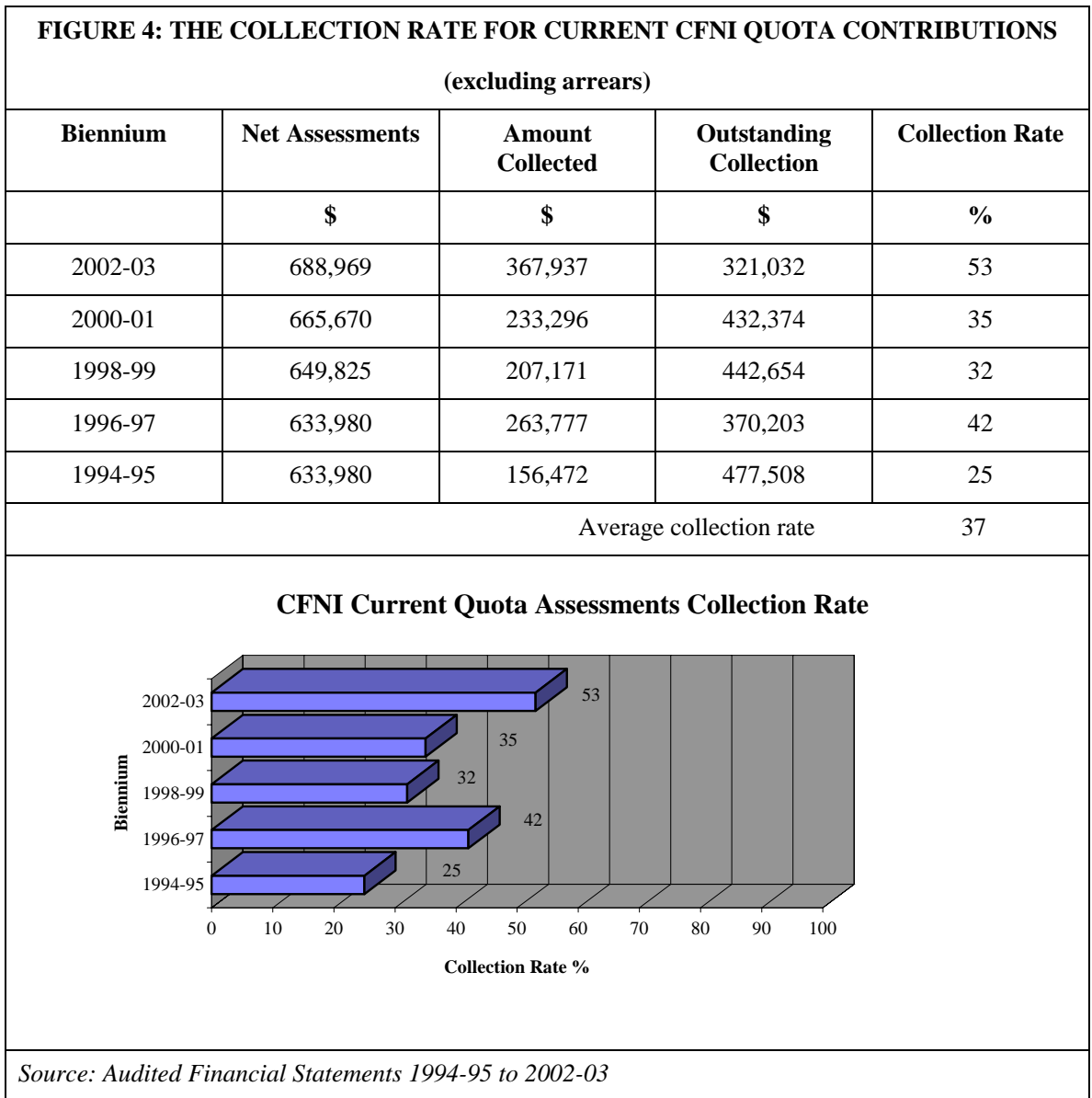
Overall Financial Position

48. CAREC's Regular Budget income rose from \$3,639,035 in 2000-01 to \$3,941,739 in 2002-03, largely due to an increase in quota contributions. Regular Budget expenditure also rose, from \$3,599,227 in 2000-01 to \$3,796,159 in 2002-03. After other adjustments, the surplus for 2002-03 was \$208,907, thereby increasing the balance on the working capital fund to \$945,845 as at 31 December 2003.
49. CAREC recorded a considerable increase in trust fund income from \$4,025,090 in 2000-01 to \$6,998,770 in 2002-03. There were eleven new trust funds in 2002-03, which collectively generated income of \$3,531,346 during the period. The increase in income was largely due to increased activities on HIV/AIDS prevention and control.
50. CAREC's funding from PAHO rose from \$1,255,170 in 2000-01 to \$1,968,825 in 2002-03. In addition, CAREC received direct funding from WHO in 2002-03 of \$166,354. Total fund balances rose by \$1,894,465 over the biennium, to \$4,673,969 at 31 December 2003. Combined, this represents an increase of 68 per cent.

Caribbean Food and Nutrition Institute (CFNI)

Quota Contributions

51. Figure 4 shows that during 2002-03 the amount collected on current assessments was higher than in 2000-01. However, the collection rate for 2002-03 at 53 per cent remained significantly lower than the comparable rate for PAHO.



52. Despite an improved collection of current period assessments, CFNI collected significantly lower amounts in relation to prior years, at \$174,344 compared with \$457,197 in 2000-01. Total outstanding contributions rose by \$146,688 to \$1,302,011. Of this amount, the host country owes \$1,223,901 or 94 per cent.

53. During their audit, my staff noted the considerable efforts made by the Institute to encourage Member States to pay their assessments. Nevertheless, continued arrears impair CFNI's ability to plan and carry out activities, and could place at risk its continued financial viability. I therefore continue to encourage Member States to adhere to the due times for payment of their contributions.

Overall Financial Position

54. CFNI's Regular Budget income rose from \$665,670 in 2000-01 to \$688,969 in 2002-03 due to increased quota contributions. Regular Budget expenditure, however, fell from \$644,749 in 2000-01 to \$603,878 in 2002-03. After adjustments for delays in the collection of quota income, CFNI recorded a deficit of \$61,597 for 2002-03, thereby increasing the deficit balance of the Working Capital Fund to \$405,265.
55. There has been a considerable increase in CFNI Trust Fund income and expenditure during the period. Trust Fund income rose from \$346,306 in 2000-01 to \$972,144 in 2002-03, with ten new trust funds being added to the four at the beginning of the period. The increase is chiefly due to a single project on nutrition and HIV/AIDS in the Caribbean.
56. CFNI's funding from PAHO declined from \$1,961,546 in 2000-01 to \$1,812,241 in 2002-03, with a similar fall in funding from WHO, reduced from \$653,908 in 2000-01 to \$605,775 in 2002-03.
57. In my 2000-01 report, I recommended that PAHO and CFNI should continue to keep the Institute's financial position under review. Despite the increase in trust fund activities in 2002-03, with a continuing deficit on the Working Capital Fund and reliance on advances from PAHO and WHO (albeit reduced), CFNI's financial position should remain under review.

FINANCIAL CONTROL

Regional centres

58. In addition to the sub-regional centres (INCAP, on which I provide a separate audit opinion and report, CAREC and CFNI), PAHO administers a number of regional centres:
- CEPIS – the Pan American Center for Sanitary Engineering and Environmental Sciences;
 - BIREME – the Latin American and Caribbean Center on Health Sciences Information;
 - INPPAZ – the Pan American Institute for Food Protection and Zoonoses;
 - CLAP – the Latin American Center for Perinatology and Human Development; and
 - PANAFTOSA – the Pan American Foot-and-Mouth Disease Center.

PAHO's Regular Budget financing of the centres

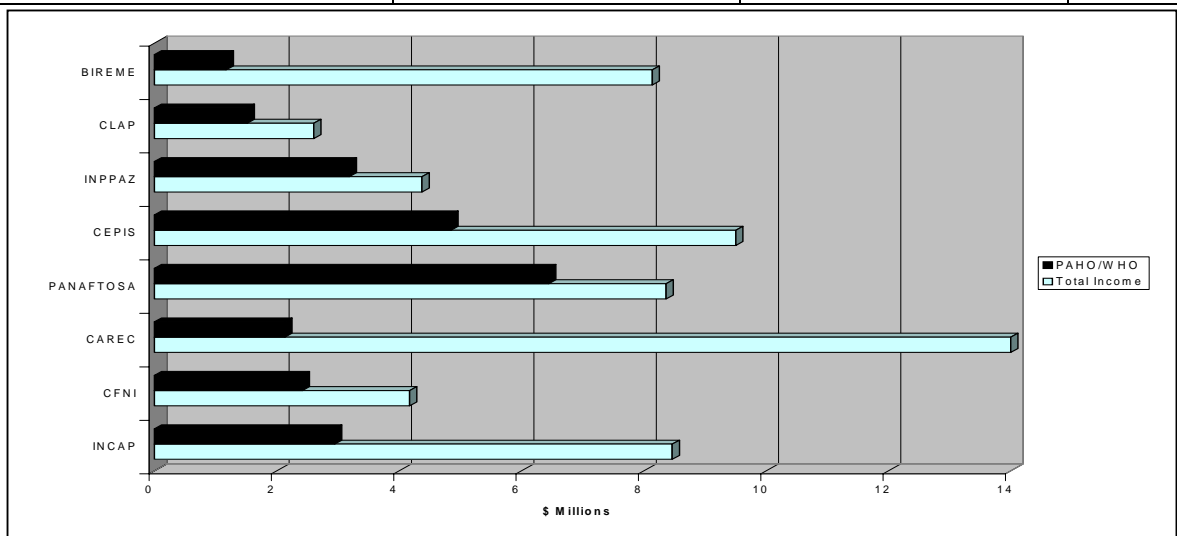
59. PAHO finances the regional and sub-regional centres in various ways. It may provide funding through its own Regular Budget, through the WHO Regular Budget, or by means of transfers from other funds, for example special funds. Figure 6 shows the extent to which PAHO/WHO finance the

centres.

60. In 2002-03, PAHO increased its support to the five regional Centers by some \$0.5 million. In particular, the Organization increased support for INPPAZ from \$2,505,318 to \$3,184,884. Nevertheless, as Figure 6 shows, the eight Centers continue to require a high proportion of overall support from PAHO.

FIGURE 6: PAHO/WHO FINANCING OF CENTERS

Centre	PAHO/WHO Financing 2002-03 \$	Total Income 2002-03 \$	Percent
BIREME	1,172,953	8,139,803	14
CLAP	1,517,490	2,605,482	58
INPPAZ	3,184,884	4,374,867	73
CEPIS	4,847,126	9,505,164	51
PANAFTOSA	6,447,554	8,366,008	77
CAREC	2,135,179	13,999,834	15
CFNI	2,418,016	4,173,134	58
INCAP	2,947,135	8,466,810	35
Total	24,670,337	59,631,102	41



Source: PAHO/INCAP accounting records

Visits to PAHO Headquarters and Field Offices

61. During 2002-03, my staff carried out audit visits to PAHO Headquarters and seven country offices: Haiti, Ecuador, Peru, Bolivia, Chile, Brazil and Mexico. They also visited the three sub-regional

centres at CAREC, CFNI, INCAP; and two regional centres, PANAFTOSA and BIREME.

62. The audit work undertaken at each office included a review of financial controls, to ensure that they were adequate and consistent with Headquarters' requirements; and testing to verify the operation of those controls. In addition to reviewing controls, my staff tested a number of transactions to ensure that income and expenditure has been properly brought to account. The results of this examination indicated that in general there was a high standard of financial control exercised at the field offices, supplemented by a satisfactory level of oversight from Headquarters. Overall, this indicated a sound level of assurance that expenditure at the field offices and Headquarters was accurately and properly recorded, and accounted for in line with the Organization's aims and objectives.
63. Detailed findings from the audit visits were notified to the Organization and field offices in management letters; and action is being taken on the recommendations made. Audit recommendations were all in respect of improving existing controls - principally in the following four areas: reconciliation of local income; retention of supporting documentation on payments; monitoring of expenditure (including projects, general expenditure and monthly payroll costs); and segregation of duties in fixed asset management.

Financial Reporting

64. As a result of an audit finding in 2000-01 that income and expenditure had been overstated because internal transactions between the different funds had not been eliminated, PAHO instituted an eliminations column in the Statement of Income and Expenditure and Changes in Fund balances in the financial statements. In previous biennia, no adjustment had been made to cancel this overstatement. For 2002-03, PAHO adopted a policy of adjusting for such transactions (Note 2(o) refers) and the comparative figures for 2000-01 have been restated. While the income and expenditure figures have changed, the shortfall of income over expenditure remains as previously stated at \$20,427,781. The fund balances and Statement of Assets Liabilities, Reserves and Fund Balances also remain unaffected.

IT: REVIEW OF AMPES-OMIS SYSTEM AND FAMIS UPGRADE

65. In country offices, PAHO uses a computerised Office Management Information System, OMIS, to support the operational management of obligation accounting, the use of suppliers, treasury operations, procurement, contracts and the running of seminars to third parties in technical co-operation activities. At Headquarters, programme and project budgetary management has been supported by a computerised programme and evaluation system, AMPES.
66. PAHO began the establishment of a re-engineering project in 1999, designed to implement a revised

Technical Co-operation Planning, Programming and Evaluation System (AMPES), for integration with the existing OMIS system for country offices. The revised AMPES system was introduced at Headquarters in 2001. From February 2002, the new integrated system was introduced to country offices as part of a staged implementation throughout the Organization.

67. To date, the implementation of AMPES-OMIS has consumed some 35 person-years on project related development work, in addition to some \$3 million non-staff costs. The new system allows immediate local access to information and reports for operational purposes, which were previously only available to PAHO Headquarters and country offices after a delay of days or weeks.
68. In 2002 my staff carried out a review of the implementation of AMPES-OMIS. As part of the financial audit, my staff seek to place reliance on management controls over the financial records and the operation of computerised financial applications such as AMPES and OMIS. This includes understanding the information systems' environment in which AMPES-OMIS operates; examining the effectiveness of related management controls; and evaluating significant risks to internal financial control, with review of any significant new system developments.
69. My staff made visits to Headquarters and two country offices, Guatemala and Honduras. The Country Office in Guatemala was one of two country offices in which the new integrated AMPES-OMIS had been piloted in October 2001.
70. My staff confirmed that implementation of AMPES-OMIS in PAHO country offices had been effective and conducted in a controlled manner, which provided a sound basis for reasonable assurance on the completeness and accuracy of the financial information reported using these systems. While some preliminary problems were identified by the review, these now to have been resolved.
71. My staff identified a need to improve important elements of the financial controls in place, as well as to address deficiencies in security arrangements which could pose threats to the integrity of financial and other information held in the system. They identified scope to improve controls over the systems and general computing environment, to ensure that business continuity can be maintained.
72. Many project managers both at Headquarters and in country offices were not effectively using AMPES to assess projects against programme activities as opposed to funding allotments.
73. In addition to the introduction of the new AMPES – OMIS system, PAHO installed an upgrade of the FAMIS (nominal ledger) system in July 2003. Audit review showed that all balances had correctly transferred from the old system to the new system.

INTERNAL AUDIT

74. Internal audit were under-resourced for the majority of the biennium following the retirement of the Head of Internal Audit in July 2002. As the post remained vacant for the remainder of the biennium, the number of field visits and audits at Headquarters was reduced. Over the course of the biennium, ten of 35 planned reports were not carried out. We drew attention to this issue in an interim management letter.
75. During the biennium, there were changes to the financing and reporting structures within which internal audit operates. Initially, internal audit operations were controlled by the World Health Organization, with WHO paying for the senior internal auditor and sharing the costs of the assistant auditor and secretary. In July 2002, after the departure of the senior auditor, PAHO took over the funding and responsibility of the Internal Audit department.
76. A new agreement between WHO and PAHO signed in January 2004 stipulates that the internal audit team based in Washington will be dedicated to a consolidated internal audit function of AMRO (the Regional Office of the Americas for WHO) and PAHO. This team will be an integral part of WHO's Office of Internal Audit and Oversight (IAO).
77. The fact that such a large proportion of planned work was not completed during the biennium and that a vacancy still exists at the time of finalising my report is of concern in the context of the overall governance arrangements of the Organization. Given the geographical and functional diversity of PAHO, a fully staffed internal audit department with clear reporting lines is an important component in an effective internal control environment for the organization. I urge PAHO to liaise with WHO's Office of Internal Audit and Oversight to make every effort to fill the vacant post as soon as possible.

Changes in Finance and Budget Departments

78. During 2002-03 management made changes in the structure of the Budget and Finance Department. The new structure separates finance from budget with separate reporting lines. The budgeting element was transferred to the office of the Director of Program Management, so that this office is now responsible for the budgeting of programmes as well as their delivery. The overlapping of responsibilities under the new arrangements may compromise the independence of advice in relation to the allocation of funds, insofar as the budget allocation process is supervised by a beneficiary of the allocation. My staff raised this matter with management, who have assured us that sufficient safeguards are in place.
79. Further, during 2002-03 the Head of Budget and Finance transferred out of the Organization and this post was merged with that of Chief of Finance to create a new role of Area Manager for

Financial Management and Reporting. Prior to the merger of the two discrete roles, there had been a clear segregation of duties with regard to accounts preparation and review. It is important for the internal arrangements to retain an appropriate degree of separation of duties to ensure adequate independent management review of the accounts.

Cases of Fraud and Presumptive Fraud

80. The Organization has informed me that there were eight cases of fraud detected during the biennium. Of the \$51,471 that was misappropriated, all but \$11,056 was recovered prior to December 2003.

Other Losses and Amounts Written Off

81. The Organization also notified me of the write-off of uncollectible receivables amounting to \$82,170.

ACKNOWLEDGEMENT

82. I wish to record my appreciation for the co-operation and assistance provided by the Director and the officers of the Organization throughout the course of the audit.



Sir John Bourn
(Comptroller and Auditor General, United Kingdom)
External Auditor

OPINION OF THE EXTERNAL AUDITOR

To: The Directing Council of the Pan American Health Organization

I have audited the accompanying financial statements, comprising Statement I to X, Schedules 1 to 9 and the supporting Notes to the Pan American Health Organization for the financial period ended 31 December 2003. These financial statements are the responsibility of the Director. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Director, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for the audit opinion.

In my opinion, these financial statements present fairly, in all material respects, the financial position as at 31 December 2003 and the results of operations and cash flows for the period then ended in accordance with the Pan American Health Organization's stated accounting policies set out in Note 2 of the financial statements, which were applied on a basis consistent with that of the preceding financial period.

Further in my opinion, the transactions of the Pan American Health Organization, which I have tested as part of my audit, have in all significant respects been in accordance with the Financial Regulations and legislative authority, except only in relation to the additional matter referred to in paragraph 4 of my long form report, concerning certain anonymous allegations of impropriety in the use of the Organization's resources.

In accordance with Article XIV of the Financial Regulations, I have also issued a long-form Report on my audit of the Pan American Health Organization's financial statements.



Sir John Bourn
Comptroller and Auditor General, United Kingdom
External Auditor